

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: March 23, 2009
POSITION: Oppose

BILL NUMBER: SB 8
AUTHOR: B. Huff
RELATED BILLS: AB 1382, SB 777

BILL SUMMARY: Performance Budgeting Pilot

This bill would require the Department of Finance (Finance) to develop a performance budgeting pilot project for at least four departments for three years beginning with the budget for fiscal year 2010-11. This bill would require Finance to evaluate this pilot project using specific criteria and report its findings to the Chairperson of the Joint Legislative Budget Committee on or before January 1, 2014.

FISCAL SUMMARY

This bill would result in costs of approximately \$10 million for implementation and maintenance of data over the life of the proposed three-year program.

COMMENTS

While Finance is supportive of the concept of PBB, Finance cannot support this bill for the following reasons:

- **There are significant costs associated with this bill.** Because projections indicate a significant shortfall of resources in the current and future budget years, sufficient resources do not exist to fund the implementation of new budgeting practices requiring collection of substantial new data and cost information. It should be noted that significant resources have already been committed to the development of the Financial Information System for California, FI\$Cal. It may be premature to commit additional resources to change the current methodology for budgeting.
- **A PBB pilot was unsuccessful.** This is not a new proposal, as previous legislation has been sponsored related to zero-based budgeting and PBB. Chapter 641, Statutes of 1993, implemented a PBB pilot program. The Legislative Analyst's Office (LAO), in its *Analysis of the 1997-98 Budget Bill (Analysis)*, noted performance budgeting had not yet fulfilled its primary objective, which was to fundamentally change the state's budgeting process. The PBB pilot was not expanded statewide because it did not meet the initial expectations with respect to the development of performance outcome measures and did not produce the anticipated savings.
- **The 2010-2011 implementation date is unrealistic.** There is not sufficient time to develop PBB performance measures and produce results by linking accounting data to performance measures in time for the 2010-2011 Governor's Budget. The 2010-11 Budget must be completed by January 10, 2010. A prior PBB pilot showed that these steps might take two to five years in some agencies. This bill does not provide sufficient time between the enactment date and the implementation date.
- **This bill does not clearly specify the agencies that should implement the PBB Pilot.** Pilot PBB programs will not likely be successful without mandating specific departments to participate in the process and obtaining full support of the management of each of the participating departments.

Analyst/Principal (0830) D. Botelho	Date	Program Budget Manager Diana Ducay	Date
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Department Deputy Director	Date
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Governor's Office:	By:	Date:	Position Approved _____
			Position Disapproved _____

BILL ANALYSIS	Form DF-43 (Rev 03/95 Buff)
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B. Huff

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- **This bill requires the evaluation of components beyond the development of a PBB and would require significant Finance staffing increases to perform.** The bill includes evaluation components such as the need for specific programs, effect of some program eliminations, program contributions, program growth rates, impact of the department's performance measures, identification of internal inefficiencies and poor resource allocation, evaluation of internal controls, accountability of staff, etc. Some of the items included in the bill may be impossible to evaluate and quantify due to a lack of data or available resources to obtain the required data.

A. Programmatic Analysis

It is important to consider options for budget reform. In an era of fiscal constraints, governments should fund programs that are effective and produce results. Coordination among existing or proposed systems should be considered.

There are several disadvantages to the use of PBB. Implementation of PBB results in a significant increase in data collection and the need for enhanced systems to process the data. Identification of useful performance measures within large amounts of data may be difficult. Performance results may be subject to interpretation with a lack of comparability between agencies. Administrative costs will increase from the addition of staff with high skill levels to collect, process, and interpret data.

It appears there is not sufficient time to produce results from a PBB pilot program for the 2010-11 budget year. Finance must complete the Budget for 2010-11 by December 2009. Once a bill is enacted and an appropriation is available, there may be insufficient time to secure agreement with participating agencies, assign staff as needed, and prepare a useable product based on the specific requirements listed in the bill.

B. Fiscal Analysis

Cost is dependent on the size and complexity of each agency selected for the pilot program. The LAO Analysis noted approximately \$5 million of resources was invested by four relatively small pilot departments over several years.

Total estimated costs for four agencies over the three-year program is estimated at \$10 million. Cost is estimated at \$3 million for 2009-10, \$5 million for 2010-11, and \$2 million for 2011-12. Costs include implementation costs and ongoing program maintenance costs.

These costs may be a combination of General Fund and Special Funds.

Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)							
	LA	(Dollars in Thousands)							
	CO	PROP							Fund
	RV	98	FC	2008-2009	FC	2009-2010	FC	2010-2011	Code
9901/Var Depts	SO	No		--	C	\$3,000	C	\$5,000	0001